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Viewing cable 05LIMA2720, VISIT OF PERUVIAN MINISTERS TO DISCUSS FTA

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Reference ID	Created	Released	Classification	Origin
05LIMA2720	2005-06-17 19:33	2011-08-30 01:44	CONFIDENTIAL	Embassy Lima

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C O N F I D E N T I A L SECTION 01 OF 04 LIMA 002720

SIPDIS

DEPT FOR D, E, WHA/AND
DEPT POASS TO USTR - BHARMAN
COMMERCE FOR 4331/MAC/WH/MCAMERON
TREASURY FOR OASIA/INL
USDA FOR FAS/ITP/GRUNENDEFELDER

E.O. 12958: DECL: 06/17/2015
TAGS: [ETRD](#) [PGOV](#) [EAGR](#) [PE](#) [ENIV](#)
SUBJECT: VISIT OF PERUVIAN MINISTERS TO DISCUSS FTA

Classified By: Economic Counselor Timothy Stater for reasons 1.4 (b) and (d).

¶1. (C) Summary. Four Peruvian Ministers -- Trade, Finance, Agriculture, and Production -- will be traveling to Washington D.C. for high-level meetings with Deputy Secretary Zoellick, USTR Portman, Commerce Secretary Gutierrez, NSC Tom Shannon and several members of Congress, June 21-22. The Peruvians are interested in concluding the Free Trade Agreement (FTA) negotiations in September, with or without their Andean partners. Post recommends that in each meeting we congratulate the Peruvians on their economic achievements and proactive pursuit of an FTA, but also emphasize the difficulties of obtaining Congressional approval of CAFTA and how that limits the flexibility of our negotiators, the unlikelihood of ATPDEA renewal, and the need to resolve the remaining ATPDEA commercial disputes. It is particularly important that these political-level officials come away with a firm impression of our limited flexibility in agriculture and IPR issues. End Summary.

¶2. (C) Pablo de la Flor told us that President Toledo is increasingly nervous about the timing of the U.S.-Andean FTA. De la Flor added that Peru is ready to pick up the pace and conclude the FTA negotiations by September without its Andean partners, provided U.S. Agriculture negotiators are flexible and ready to engage. What is not yet clear is whether the GOP's hope for flexibility is within the bounds of realism. He added that there are several minor issues pending in such chapters as Dispute Settlement and Institutional Issues that could be resolved before the July 18-22 round in Miami. They

will be gauging U.S. interest in such an accelerated endgame.

Suggested Message

13. (U) The Peruvian Government should be complimented on its solid economic growth. However, we need to reiterate several messages related to the Andean FTA.

--Effective Economic Policies: Highlight Peru's strong macroeconomic performance, particularly high recent growth rates, which underline the country's dynamism and economic leadership in the region. Measures such as Peru's reform of the pension system last year and the recent Paris Club debt buyback should improve the country's fiscal sustainability. (If asked: We were only unable to participate in the Paris Club deal for technical and legal reasons).

--We applaud your progress on a domestic dialogue over compensation mechanisms for agricultural producers that could be adversely impacted under the FTA. We also note your valuable work promoting competitiveness and pushing for other reforms to complement the FTA and modernize Peru's economy.

--CAFTA's Implications for the Andean FTA: USTR will have a difficult time selling the CAFTA agreement to the U.S. Congress. As a result, USTR has less leeway to be flexible during the Andean negotiations. USTR has already agreed to concessions on two Peruvian priority issues -- including adding biodiversity text for the first time in an FTA and language on technology cooperation in the IPR chapter. It is now up to the Andeans to make concessions, particularly in agriculture market access and pharmaceutical data protection.

--ATPDEA Renewal: Some Peruvians unrealistically hope that ATPDEA could be renewed when it expires in December 2006. It is important to reiterate that ATPDEA extension is highly unlikely and that the FTA would expand on and make permanent many of Peru's benefits under ATPDEA.

--Resolving Commercial Disputes: In order to obtain ATPDEA benefits, the Peruvian Government in 2002 made a commitment to resolve nine commercial disputes. Although Peru has made some progress on these cases, four disputes remain unresolved (Engelhard, Princeton Dover, LeTourneau, PSEG). It is important to emphasize that the GOP must resolve the remaining cases if Peru wants to be included in the Andean FTA. The most difficult case is that of New Jersey-based Engelhard, a major gold importer from Peru until late 1999.

Peru on the Right Economic Track

14. (U) After four solid years, Peru's economic expansion has recently entered a stronger phase, with nearly all key macroeconomic indicators -- GDP growth, deficit reduction, reserves -- exceeding expectations in 2004. Last year GDP grew 4.8 percent, and the economy is on track to grow five to six percent in 2005. Inflation remains low and the currency is strong. The government recently concluded a Paris Club debt buyback that will save \$350 million in annual debt service for several years.

15. (U) Thanks in part to ATPDEA, growth is broadening across sectors, private investment is climbing and employment and commerce are expanding in the regions. Exports hit \$12.5 billion last year and could reach \$15 billion in 2005. Given a strengthening pro-market consensus across the political spectrum, analysts consider that 2006 elections will have little impact on macroeconomic policy.

16. (U) Nevertheless, despite recent successes, major challenges remain. Poverty afflicts 52 percent of the population, and the government collects insufficient revenues for adequate social investment. Wealth and growth are concentrated in coastal cities, with rural sierra and jungle areas extremely poor and underdeveloped. Peru is handicapped by major infrastructure bottlenecks and a low quality educational system. The government is struggling to strengthen weak institutions, and the investment climate remains problematic due to inconsistent application of tax policies, social unrest and other concerns. Completion of the FTA is viewed as a critical tool to help Peru over some of these hurdles and implement needed reforms; failure to complete the FTA would impact Peru's continuing export growth.

Sensitive Issues: Agriculture and IPR

17. (U) Agriculture: Agriculture remains difficult for the GOP to negotiate in face of protests from producers of dairy, poultry, and commodity crops. These producers are pressuring the government to not fully eliminate tariffs on their

products. (Note: Ministers Ferrero and Manrique may seek the USG's flexibility on agricultural issues in the wake of recent protests by both coca and rice farmers. End Note.) Some Peruvian exporters (of mainly fruits and vegetables), however, are pressuring the GOP to finish the agreement quickly, as nearly one half of Peruvian agricultural exports are shipped to the U.S. market. One-third of the Peruvian working population, approximately 8 million people, depends on agriculture for their livelihood. The most sensitive products are dairy, corn (Peru imports half of its consumption) and chicken leg quarters.

18. (U) Even in the face of such pressure, the GOP has advanced further in the agricultural table than their Andean counterparts. One of the reasons is that of the three Andean FTA participants, Peru has the most liberalized agricultural sector. Their price band is limited to 46 products compared to 168 for both Ecuador and Colombia. Peru currently does not use a tariff-rate quota or have domestic purchase requirements for approval of imports, as Colombia and Ecuador do.

19. (U) Despite Peru's comparatively liberalized agricultural sector, both the agricultural market access and Sanitary and Phytosanitary (SPS) negotiations are moving very slowly. Fundamental differences exist between the United States and the Andeans, including Peru, on SPS. The Andean countries, led by Colombia, seek obligations that go beyond the approach for SPS agreed to in other FTAs in the region, as well as the obligations of the WTO SPS Agreement.

110. (U) On the market access side, Peru is looking to receive permanent zero-duty treatment for products currently under the ATPDEA. Its largest export by far is asparagus (over \$100 million in 2004), which accounts for nearly one-third of the country's total food and agricultural exports to the United States. Defensively, Peru wants exceptions to eliminating tariffs for some sensitive products. From the initial negotiation, the United States has stated that the goal is to consolidate Peru's ATPDEA benefits. As of now, while it has moved in a favorable direction, Peru has yet to offer immediate access on any U.S. priority items.

111. (C) Intellectual Property Rights (IPR): The most sensitive issue for the pharmaceutical industry remains the lack of protection of data relied on to obtain marketing approvals for drugs in Peru. Senior government officials contend that this is a very delicate political issue. Recent studies by the Ministry of Health and Indecopi, Peru's IPR administrative agency, argue that the price of medicines will increase substantially under an FTA, playing on fears that Peruvians' access to medicines will decline sharply. Nevertheless, GOP negotiators realize that they will need to provide 5- and 10-year protection for pharmaceutical and agrochemical test data, the same levels cited in the CAFTA IPR chapter.

112. (U) Another top concern of U.S. industry in Peru is the lack of IPR protection relating to both copyrights and patents. Peru remains on USTR's Special 301 Watch List. Copyright industries face chronic high rates of piracy (98 percent for the recording industry; an estimated 70-80 percent for the audiovisual industry). Industry representatives and officials from Indecopi have jointly called for increased enforcement through tougher sentencing, the creation of specialized judges and an increase in authority for specialized IPR prosecutors.

Bio Data -----

113. (C) Minister of Trade Alfredo Ferrero - Alfredo Ferrero, who was educated in the United States, was appointed Minister of Trade and Tourism in early 2004. He has been the Toledo Administration's strongest proponent of free trade and an FTA with the United States. Ferrero has strong ties to the business community and fares well with the Peruvian media. He is smart, well versed, but has a hot temper. His uncles are the current Peruvian Ambassador to Washington and the Prime Minister.

114. (C) Minister of Finance Pedro Pablo Kuczynski - PPK, Peru's star cabinet member, is internationally known in the investment banking and development fields. An orthodox economist and staunch proponent of free trade, PPK has reiterated in the press that the FTA is necessary for Peru to continue its economic expansion. PPK is President Toledo's candidate for the Presidency of the Inter-American Development Bank. PPK may also be stepping down in August to run for the Presidency in Peru's April 2006 national elections.

115. (U) Minister of Agriculture Manuel Manrique - Manuel Manrique, appointed in late February, is a civil engineer who has studied at Northwestern University. He was the Executive

Director of a major irrigation project for the Ministry of Agriculture, but is not seen as an expert on a wide range of agricultural issues. Manrique has spoken in favor of the FTA, stating that Peru will remain a poor country without it. Manrique is the only member of this group who does not speak fluent English.

116. (C) Minister of Production David Lemor - A relative newcomer to the Cabinet, David Lemor, a civil engineer, was a textile producer. He previously held the post of Vice President of National Industrial Society, a protectionist organization of textile manufacturers. Lemor is a strong supporter of the Andean FTA.

Comment: Ready to Deal

117. (C) The GOP is serious about concluding FTA negotiations with the United States by September, before Peru's national electoral campaign begins. During the Washington meetings, the Ministers will likely compare Peru to the other Andean countries, arguing that Peru is better prepared, more liberalized, and has made more concessions during the FTA negotiations. These officials realize that without an FTA or an extension of ATPDEA, Peru will be unable to maintain its current level of economic growth and carryout needed structural reforms. The Ministers will also probably cite the latest United Nations study, which indicates that Peru's coca crops have increased 14 percent to more than 50,000 hectares, to contend that an FTA and economic growth are necessary to stem coca cultivation in Peru.

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